2016

The Implications of Contract Manufacturing for a Company's Brand Equity

Jeremy Riley
Portland State University

The Implications of Contract Manufacturing for a Company's Brand Equity

By

Jeremy Riley

An undergraduate honor thesis submitted in partial fulfillment of the

requirements for the degree of

Bachelor of Science

In

University Honors

And

Advertising Management & Marketing

(School of Business Administration)

Thesis Advisor

Dr. Melissa M. Appleyard

Portland State University

2016

Introduction

From stealing ideas to unfair labor practices, there are many complications faced by companies hiring a contract manufacturer. Existing literature covers these complications; however, a gap exists regarding the implication to brand equity. The purpose of this thesis is to fill this gap and analyze the effects on companies' brand equity when they hire contract manufacturers. Focusing on the direct, tactical, and internal complications that arise when hiring a contract manufacturer, a theoretical framework was used to extend the complications and describe the impacts to brand equity. Research sources spanned peer-reviewed journals, case studies, interviews, and market research. In addition to fulfilling the honors thesis requirement, this paper also satisfies a University Studies Capstone requirement to aid an entrepreneur considering the use of contract manufacturing. Findings include positive and negative impacts to brand equity for companies who employ contract manufacturers. Professionals responsible within an organization for brand management can use this paper as a guide in traversing a new or existing relationship with a contract manufacturer.

Client Synopsis

We will use the generic term "client" to represent (and provide anonymity) to the entity for which the concept of this paper was intended. The client is currently in the ideation phase of creating a start-up to develop "transitionary foods." As described by the client, *transitionary foods* are products that stand alone in quality, flavor, and texture, while not fitting into traditional market categorizations. The client has a strong desire to create a food company based on the 3P triple bottom line (planet, profit, and people) and provide niche plant-based snacks. Simultaneous with the completion of this thesis, a business plan was being constructed to aid in launching four of the client's signature snack foods.

This paper addresses two distinct needs that are crucial client success factors. First, the client has requested to position themselves at the head of the company as the *idea person*, or *face of the brand*. Having a personal brand identity with strong brand equity satisfies this requirement. Second, the client's products require more attention to quality control and volume than can be accomplished in a home kitchen. Food preparation and packaging (production) may need to occur under contract by disparate businesses in order to meet demand. The concept of contracting out production is called 'contract manufacturing.' Contract manufacturing will have distinct impacts on the personal brand equity created in the business and informing the client of these impacts is essential.

What is Contract Manufacturing

Contract manufacturing is regarded as a supply chain arrangement by which a firm outsources some of its manufacturing processes to an outside supplier through a contractual agreement (Han, Porterfield, Li, 2012). A contract manufacturer (CM) is the institution providing the contract manufacturing (and packaging) of products. In the food industry a CM is referred to as 'co-packer'. *Co-packing* is the equivalent food industry term for contract manufacturing. We will use the term contract manufacturer and the abbreviation CM throughout this document to represent both. Outsourcing and Original Equipment Manufacturers (OEMs) are two parallel terms. For the scope of this paper, outsourcing is used as a synonym for contract manufacturing while the use of OEM will be used interchangeably with 'company'.

What is Brand Equity

Brand Equity is the value created through repetitious recognition. Brand equity is "…a set of assets and liabilities linked to a brand, its name and symbol, that adds to or subtracts from the value provided by a product or service to a firm and/or to that firm's customers" (Aaker, 1991) Aaker (1991) continues that brand equity is composed of five distinct components: **loyalty**, **awareness**, **perceived quality**, **associations**, and **assets**. Brand loyalty is the behavior of consumers to prefer one brand over another in their purchasing decisions. Brand loyalty is a key consideration when placing a value on a brand because loyalty translates into a profit stream (Aaker, 1992: 28). Brand awareness is the level of cognitive recall by consumers of the products or brand name. For many companies, brand awareness is pivotal, and it underlines the strength of successful brands (Aaker, 1992: 30). Perceived product or brand quality is the association of the name to the level of which it meets consumer expectations. In a survey of 250 business managers who were asked to identify the sustainable competitive advantage of their firm, the top-rated asset was perceived quality (Aaker, 1992: 30). Brand associations are extensions or attributes of the brand that are surfaced when the brand is mentioned (association can also be tied to brand positioning within a market). Brand image is perhaps the most accepted attribute of brand equity (Aaker, 1992: 29). A brand's assets are a brand's proprietary property: patents, trademarks, et cetera. Throughout this document brand equity will refer to the combination of all five components.

Literature Survey

The notion of a corporate consciousness surfaced as early as the 1940s when companies realized they could obtain a ‘brand identity’ (Klein, 2000). Yet, it was not until the mid-1980s that companies began focusing on branding activities instead of the *making of things*. The *making of things* refers to the activity of product manufacturing as the main method for a company’s profit creation. According to Klein (2000), what brought about this change in focus was the reaction of producers to a market saturated with indistinguishable products (e.g. cereal, shoes, vehicles). In 1988 the market fully realized the importance of brand equity when Phillip Morris purchased Kraft foods for six times the value computed on the profit and loss statement. Since the 1980s firms that traditionally manufactured their own products began outsourcing production and focusing instead on product design, development, and brand marketing (Plambeck and Taylor, 2005: 133).

Current literature in the field focuses on the direct, tactical, and tangible effects of contract manufacturing. “Outsourcing arrangements may lead to a wide range of benefits to OEMs including cost reduction, improved delivery, quality, increased valued-added services, asset reduction, and improved collaborative communication” (Han, Porterfield, Li, 2012: 159). Contract Manufacturers are in a unique position to be a company’s greatest asset, or a detrimental liability. CMs gain knowledge of a brand’s intellectual property, possess production resources, and gain exposure to development processes (Arruñada, Vázquez, 2006).

CMs can be a direct detriment to contracting organizations. Arruñada and Vázquez (2006) articulate how Lenovo employed IBM's *secret sauce* to produce their own personal computer product line and became a direct competitor to IBM. IBM had transferred product and manufacturing knowledge, partner relationships, product roadmap information, and much more to Lenovo. Overtime Lenovo used this information against IBM to become a direct competitor. IBM lost a supplier, proprietary product knowledge, subject matter expertise, product manufacturing knowledge, and much more. IBM eventually exited the PC manufacturing market and sold the entire division to their former CM, Lenovo.

IBM was not able to use their CM relationship as an advantage; however, literature shows that CMs can have a positive effect as well. Han, Porterfield, and Li (2012) describe CM used as tool that allows a hiring firm to address product capacity issues, redirect resources to marketing efforts, reduce labor costs, and much more. Hasbro employs contract manufacturing and is able to redirect resources saved to improve product design. (Han, Porterfield, Li, 2012: 159) Cost reduction, improved delivery quality, additional services, and asset reduction are all benefits Hasbro enjoys by using contract manufacturing.

Only to a limited degree does the existing literature consider the external impacts to brand equity of using contract manufacturing. This paper attempts to bridge this gap.

Methodology

Given the lack of literature addressing the relationship between contract manufacturing and brand equity, an exploratory, theoretical sampling methodology was used. An analysis of existing literature surrounding the effects of contract manufacturing to internal business systems was used as a baseline from which to extend the effects externally and postulate the impacts to brand equity. Case studies were also used across a range of companies (and industries). The case studies were analyzed and details are provided describing the effects to brand equity in each scenario.

This study contributes to brand equity literature by highlighting the effects of using contract manufacturing in a commercial environment that continues to rely heavily on CMs. This paper concludes by addressing the theoretical limitations of the study and offering direction for future research.

Case Studies

Tommy Hilfiger

Tommy Hilfiger is an apparel company started in New York, USA in the year 1985 by the founder, Tommy Hilfiger. The Tommy Hilfiger Corporation went public in 1992 and eventually grew its product lines to include men, women, kids, and accessories. Tommy Hilfiger began selling globally in the early 2000s and was purchased by a large holding company (Phillips-Van

Heusen) in 2010. This case study describes the negative impacts on brand assets and associations by using contract manufacturing.

In the fashion industry as companies start operating their businesses globally, outsourcing becomes one of the key components to success (Theodosiou, Leonidou, 2003) While the exact date is unknown, as Tommy Hilfiger went global, they relied heavily on contract manufacturing. Tommy Hilfiger distributes in over 90 countries, has more than 1000 stores, and in the words of Naomi Klein, “manufactures none of their own products.” (Klein, 2000: 26) Tommy Hilfiger primary relies on contract manufacturing of their products in Bangladesh (as do most of Phillips-Van Heusen brands). Bangladesh is a powerhouse in the fashion industry for garment production due to the low labor cost and under developed worker’s rights regulations (Ross, Mosk, Galli, 2012).

In 2011, twenty-nine factory workers died in a fire at a garment factory in Bangladesh (Ross, Mosk, Galli, 2012). Locked exit ways meant to prevent theft, instead prevented workers from escaping the fire. Cornered by ABC newscasters, founder Tommy Hilfiger misspoke when asked about the incident stating “I can tell you that we no longer make clothes in those factories... we pulled out of all of those factories” (Ross, Mosk, Galli, 2012). An ABC new report showed this was incorrect, creating a public relations issues for the company. Following the report Phillips-Van Heusen committed $1 – 2 million dollars of funding for independent inspection of factories in Bangladesh (Ross, Mosk, Galli, 2012).

“Bangladeshi media is abuzz with reports that CEOs of major apparel brands worry that their own brands may be tarnished by association with the Bangladesh ‘brand,’ threatening diminished investment if the labor rights climate does not improve” (Clausen, 2012). The perception of the Bangladesh *brand* poses reputational risk to the brands hiring contract services out of Bangladesh, and some businesses have ceased to do business using Bangladesh factories to safeguard their reputations (Clausen, 2012). Over 500 workers in Bangladesh factories died during the five-year span of 2008 – 2012 (Ross, Mosk, Galli, 2012). And, as the situation worsens so does the impact to brand equity. Associations and relationships between brands and contract manufactures are forms of **brand assets**. As an issue this drastic continues to garner more attention, damage to brand image will occur. ‘Escalating worker protests attract international attention and potentially damages companies’ brand images’ (Clausen, 2012: 15). Brand image is a form of **brand association**. Aaker (1992) suggested a brand image may be the most important aspect of brand equity. Tommy Hilfiger’s brand equity (assets and associations) were negatively affected in unmeasurable ways due to the negative public relations attention as a result of continued use of contract manufacturing in Bangladesh.

Apple

Founded in 1976 by Steve Jobs, Steve Wozniak, and Ronald Wayne, Apple Inc. started in a garage creating personal computers. In 1980 Apple went public at $22 dollars per share (USD) instantly creating more millionaires than any company in history (Malone, 1999). Apple, a technology and electronics company, would go on to create more innovative products such as the iPod, iPhone, and iPad creating the most valuable brand in the history of the world. Today Apple tops Forbes magazine’s “World’s Most Valuable Brands” ranking with a brand equity valuation of $145.3 billion dollars (USD). This case study describes the negative impacts to brand loyalty in the event the contract manufacturer has negative press.

Like many technology companies, outsourcing is a vital element of Apple's success. Each product requires various components created by many contract manufacturers throughout Apple's supply chain. Apple's largest CM is the Foxconn Technology Group. Based in Taiwan, Foxconn is one of the world's largest contract manufacturers supplying electronic components, production expertise and compiling and packaging services. Many of Foxconn's factories are located in China where they employ over one million people (McCarthy, 2015).

Apple engineers have dubbed Foxconn's iPhone manufacturing plant in Zhengzhou "Mordor" – a derogatory term representing an evil location from a popular American fictional tale (McCarthy, 2015). According to McCarthy:

- In August of 2015 a worker jumped to his death after being accused of stealing an iPhone prototype.
- In spring of 2013 three workers committed suicide in a span of three weeks.
- In 2010 six Foxconn employees killed themselves over the working conditions

The Fair Labor Association, a watchdog monitoring working conditions at makers of Apple Inc. products, has uncovered 'tons of issues' that need to be addressed at a Foxconn Technology Group plant in Shenzhen, China, FLA Chief Executive Officer Auret van Heerden said (Burrows, 2012). In a documentary series called 'Panorama', BBC News secretly filmed inside the factories where the components were made. As reported by the BBC, "The team found Apple's promises to protect workers were routinely broken… it found standards on workers' hours, ID cards, dormitories, work meetings and juvenile workers were being breached" (BBC News, 2013).

The story about the working conditions at its manufacturing partner Foxconn is a genuine brand threat (Sauer, 2012). Apple's devoted following may have second thoughts when purchasing one of Apple's products as these trends continue. Their **brand loyalty** is damaged as a direct result of continual failure to manage their CM relationship with Foxconn. Continued damage to brand loyalty is not something a company can rebound from (Aaker, 1991).

Hasbro

Hasbro was created by three Polish brothers in 1923 as a textile company selling hat-liners and pencil box covers (Davis, 2010). In the 1930s Hasbro employed over 200 workers and had annual sales of $500,000 (USD) from the sale of school supplies and pencils. Hasbro began selling toys during World War II and today is the second largest toy maker in the world owning the toy manufacturing rights to the Marvel's comic book universe. This case study exemplifies the positive impacts to brand equity a firm can enjoy by following a different strategy of contract manufacturing than competitors.

In 2007 the toy industry was negatively affected by a major recall in toy production due to the detected presence of lead paint being used on toys produced out of Chinese factories (Story, Barboza, 2007). The New York Times reported that over 19 million toys had been recalled from Mattel (the largest toy manufacturer in the world). With Mattel in the spotlight, the media focused minimally on Hasbro, including only small blurbs recognizing how the company continues to review the safety features in place at the contract manufacturing facilities it employed in China. While Mattel incurred severe brand damage in the incident, Hasbro's perceived **brand quality** only took minimal and indirect damage for simply being a toy manufacturer. "That's a major reason why Hasbro was largely unaffected by the toy industry's lead paint crisis in 2007. Among its sourcing safeguards, the company prequalifies and continually monitors its overseas factories to ensure that quality management systems are in place" (Heric, Singh, 2010) As Mattel's **brand awareness** quickly became that of a toy maker willing to cut corners and use lead paint to poison children, Hasbro's awareness became the toy maker that cares. In 2011, Hasbro announced in an interview that they would being insourcing and contracting with domestic manufacturing on some product lines. Hasbro's Russ Davis commented, "Leveraging domestic manufacturing allows a client to accelerate and decelerate production more quickly either maximizing or minimizing their financial exposure. By shortening the supply chain via domestic manufacturing a client optimizes their inventory holding position" (Gottlieb, 2011). It also increases a brand's perceived quality to be associated with the home nation's brand effects. A nation's brand effects tie directly to the producer. In the United States the attributes include values of independence, self-expression, and freedom. All of these attributes (and more) tie directly into a concept of national pride and become related to the corporate brand involved (Jaworski, Fosher, 2003).

Impact Analysis

Contract manufacturing has its strengths and weaknesses. On one hand it can allow a business to focus more on the marketing of the brand and the research and development activities necessary to bolster its products (Myslik, 2016). On the other hand, there are situations in which a contract manufacturer can hurt your brand through illegal, unethical, and immoral activities. Using

Aakers five brand characteristics, our analysis breaks down the impacts of using contract manufacturing from available literature and extends the effects to brand equity.

Brand Awareness

Brand awareness is the consumer’s ability to identify a brand regardless of purchasing preference. In a taste test where consumers were able to view the three peanut butter products they were about to taste, seventy percent of them selected the known brand as the winner even though some participants acknowledged never having purchased the product (Aaker, 1992: 30). In a blind taste test, one of the other products was found superior. In the brand equity spectrum, this is the power of **brand awareness**.

The biggest benefit of using contract manufacturing for brand management is the ability for a brand to redirect resources from production capabilities to marketing activities that aid in creating this awareness. The benefits of working with a co-packer can include freeing you and/or your staff to focus on the marketing of sales of the product (Lewis, 2014: 60). Tommy Hilfiger contracted with Jockey International to make its underwear, Pepe Jeans in London makes Hilfiger pants, and Stride Rite constructs Hilfiger shoes (Klein, 2000). These arrangements not only free Tommy Hilfiger up to work on brand awareness, but the reputations of each of these CMs are transferred directly to the Tommy Hilfiger brand. Consumers use qualitative perceptions such as the information derived from a brand’s reputation to classify products into mental accounts and derive their evaluations of product alternatives based on the brand levels of their reference product (Zhu, 2011: 58). Using Stride Rite, Jockey, and Pepe Jeans transferred positive mental accounts to the Tommy Brand, which is not always the case.

Alternatively, negative mental accounts can become a weakness of using a contract manufacturer. While fair labor practices continue to be a challenge for Foxconn, the CM is also known for producing high quality electronics components for many major electronics brands. By using Foxconn, Apple does not have to raise, invest, and risk the capital necessary to develop their own production facility. This leads to a decreased per unit cost (a benefit) simply by retaining Foxconn (Arruñada, Vázquez, 2006: 136). However, Zhu (2011) suggests a CM's reputation as a high quality supplier may not be enough to overcome the damage to a consumer's mental account of a brand. As Apples brand equity degrades with each new revelation into Foxconn's labor practices, so will the preference of choice in the consumer's mind.

Brand Loyalty

Apple also relies heavily on the aspect of brand loyalty. A loyal customer can be expected to generate a predictable sales and profit stream (Aaker, 1992: 31). Aaker contends that creating brand loyalty involves retaining current customers and providing superior service/product quality. Improved service quality from outsourcing can enhance company value, and many users claim that this has driven their decision to go outside more than any anticipated cost reductions (Bryce, Useem, 1998: 638).

A benefit to contract manufacturing is the lower of costs that then become diverted toward marketing for improved customer retention. "When a product or service costs less, it frees up capital for alternative uses" (Bryce, Useem, 1998: 636) A brand must ensure that the CM maintains a high level of service while continuing to provide cost savings. Routine brand audits should be conducted, whereby consumers' perceptions of the brand and their beliefs regarding what a brand is (and is not) capable of doing is regularly assessed (Beverland, Napoli, Farrelly, 2010: 46). Maintaining high levels of product consistency at the CM and implementing regularly scheduled auditing activities will positively impact brand loyalty. Developing new products within such confines helps maintain brand consistency and reinforces brand identity and equity over time (Beverland, Napoli, Farrelly. 2010: 45).

Bad CM public relations is the main cause for concern in terms of the impact to brand loyalty. In 2007, numerous brands of pet foods were recalled due to failures at a single CM, Menu Foods. The recall was just one of many CM-related recalls in the food industry around that time (Handley, Grey 2015: 1012). Many brands using Menu Foods services suffered indirect, negative impact to brand loyalty as a result. A pharmaceutical CM facility in Ohio was shut down due to quality lapses that led to metal particles and sterility concerns in the products produced (Handley, Grey 2015: 1012). The pharmaceutical industry is one of the largest advertised industries in the world. Brand loyalty is extremely important to pharmaceutical companies trying to reach the end consumer through the doctors prescribing their products. In 1982, people taking Tylenol began dying in Illinois after the product became laced with cyanide. Investigators focused their efforts at Tylenol's CM facility, and Tylenol spent over one-hundred million dollars (USD) – roughly the equivalent of two-hundred and thirty million dollars (USD) at the time of this paper – to repair brand loyalty damage (Markel, 2014). Tylenol implemented seals on its products after this incident, but the damage to brand loyalty had been done and the amount of money required to repair the damage was extensive.

Brand Assets

Brand assets provide a firm with a significant advantage: a barrier that prevents customers from switching to a competitor. For example, it would be difficult for a competing department store to make a claim that it has surpassed Nordstrom or Harrod's on service. Such a firm may be forced to find another, perhaps inferior, basis for competition (Aaker, 1992: 32). Impact to brand assets may be the only area in which a positive correlation with contract manufacturing is not present. Brand assets are tangible, value creating properties and resources available to a company. Brand assets include (but are not limited to) patents, trademarks, intellectual property, relationships, expertise, and more, and contract manufacturing has no discernable positive affect on such assets.

Pursuing contract manufacturing may result in a weakening or loss of brand assets through the expertise accumulation at the CM. IBM, the creator of the Tough notebook and ThinkPad, used Lenovo for contract manufacturing of these products and others within its entire product mix. A few years later Lenovo took over production of IBM's entire notebook category. A CM may decide to build its own brand and forge its own relationships with retailers and distributors – including those of the OEM (Arruñada, Vázquez, 2006: 136). "A CMs evolving situation encourages them to develop their own brands as they reach efficient scale and their costs levels converge. At the same time, the products they make begin to commoditize. In response, CMs will attempt to regain a sustainable competitive advantage by undertaking the value-adding activities that their patrons had handled themselves... by that point the CMs will have become the OEMs themselves" (Arruñada, Vázquez, 2006: 137). Intellectual property can also be at risk. A CM can exploit for the benefit of its own brands the knowledge it acquires in the course of working for a given OEM; or the CM can transfer (legitimately or not) this knowledge to other client OEMs. Such leakage may occur even if the CM does no more than assemble components made by others (Arruñada, Vázquez, 2006: 138). A CM may also steal expertise, resources, or relationships it becomes privy to by doing business with a brand. “A limitation to outsourcing is that over the long-term, expertise does not remain within the organization and the effectiveness in managing that area is lost” (Jiang, Belohlav, Young, 2007: 897). Employees and relationships are also considered brand assets. Extreme levels of outsourcing hollow out a company. There may be unintended consequences of outsourcing the organization's knowledge and skills to outsiders. The CM may even sell the acquired know-how and company secrets to a competitor. Organizations can find that outsourcing employees' skills limits these organizations' ability to learn and exploit changes (Belcourt, 2006: 275). Contract Manufacturing may leave your organization with fewer assets than when the relationship first took shape.

Brand Associations

“Brand associations or brand image is perhaps the most accepted aspect of brand equity” (Aaker, 1992: 28). Brand image (also known as brand identity) shows two important categories of brand identity elements: persons and objects. Objects are slogans and logos, while persons are people and actors who ‘live the brand’ (Bjork 2012: 521). Brand associations also includes positioning of the brand within a market. Brand positioning helps foster consumers’ perceptions and expectations about what a brand should be doing (Beverland, Napoli, Farrelly, 2010: 45). Contract manufacturing can have both positive and negative impacts on brand associations.

“Generally speaking the more transparent a co-packer is, the more trust will likely develop between partners. Considering this could be your brand’s most important partnership, that trust factor is crucial” (Myslik, 2013). Building trust between a CM and brand is vital in positioning the brand for success. A brand must work with a CM on pricing, fit, and product expansion, these are the basics in brand positioning. Guiderails can be put in place to promote trust and mitigate any additional issues related to heterogeneity (heterogeneity is where many CMs provide production services for a diverse set of customers). Identifying cooperative relationships, expectations of future business, and formal performance assessment programs are the key mechanisms to mitigate difficulties attributed to heterogeneity (Handley, Grey 2015: 1013). Heterogeneity can also be a tool for the CM to provide information back to the brand where allowed, as industrial expertise is built up and efficiencies gained, this information can be shared. Different brands require deploying different firm capabilities and resources to achieve new product success, and this information providing mechanism may be vital to improving brand associations (Beverland, Napolie, Farrelly 2010: 33). Heterogeneity therefore can be a benefit to brand association by including the knowledge and relationships gained from disparate clients as a benefit to the hiring organization.

Contract manufacturing can have negative impacts on brand associations as well. Products that are contract manufactured under complex licensing agreements – whereby the drive to achieve scale economies through volume production – leaves brands vulnerable to the threats of the *grey* market, parallel importing and product counterfeiting (Moore, Fernie, Burt, 2000: 931). This example is a direct, negative impact to brand image. Ray-Ban, Oakley, and other popular sunglass manufacturers see this impact consistently as spring break vacationers to border towns in Mexico can pick up cheap, yet highly similar imitations of their products. This is a break-down in CM protection of brand associations. Heterogeneity can be a negative factor in contract manufacturing as well. A CM will provide services as specified in the contract. If the needs of the user organization changes, contracts will have to change. It is possible that a vendor who is rich in heterogeneity may enter a market and become a competitor. For example, Schwinn, a U.S. manufacturer of bicycles, outsourced the manufacture of its bicycle frame to a Taiwanese organization, Giant Manufacturing. A few years later, Giant entered the bicycle market and damaged Schwinn's business. Companies can lessen this risk by erecting strategic blocks–terms in the contract that limit the replication of certain competitive advantages, such as propriety technology—or spreading the outsourcing among many vendors (Belcourt, 2006). This damages brand image and positioning when a CM uses information obtained by providing services to a diverse set of customers is used to become a direct competitor.

Brand Perceived Quality

Perhaps the largest impact to brand equity occurs to perceived quality. “Perceived quality provides value by providing a reason to buy, differentiating the brand, attracting channel member interest, being the basis for line extensions, and supporting a higher price” (Aaker 1992: 30). It is the responsibility of the brand to ensure perceived quality is kept at the highest level while engaged with a CM.

Brand or reputational value can be improved when products and services are more competently delivered by providers than by inside personnel. The South Eastern Pennsylvania Transit Authority (SEPTA), for instance, outsources its off-train ticket sales. Few riders realize that the employees behind the ticket glass work not for SEPTA but for a contracted provider, and when the latter delivers high quality service to customers, the value accrues to SEPTA and its owners (Bryce, Useem, 1998: 636). Monitoring quality is a necessary step in maximizing a high level of perceived quality. “I make sure to hop in on a production at least every quarter. I do this to make sure things are going smoothly and product is being manufactured to my standards. You might catch things you don’t want to see, but at least you’ll be able to nip them in the bud for the next production” (Adams, 2014). Providing oversight and high levels of detailed information is paramount in maintaining exceptional quality in the eyes of the consumer. “The team at Effie’s Homemade wrote a quality-control manual to guide their co-packer’s production team. The instructions include how to make, package and palletize their product down to the level of how to stack the cases onto wooden pallets and shrink-wrap them for shipping” (Whyshak, pg. 125).

Our case studies have shown how contract manufacturing can have negative effects to brand perceived quality as well. “Manufacturers deliver to a spec and a set of instructions. If you don’t develop and understand them, you will be relying on someone else to do so. If they don’t have the same standards or preferences as you do, that will be a problem” (Myslik, 2013). A perceived quality problem directly tied to the brand. Heterogeneity also has a hand in quality concerns. Handley and Grey (2015) suggest that increased heterogeneity has negative implications for quality conformance performance at the CM. Each of the buyers to whom a CM provides for individually exerts influence over key decisions in product that impact the operational environment (i.e., product and process design, sources for materials and components, etc.) (Handley, Grey 2015: 1013). CMs may influence one brand’s product by using components or services from another brand to fill gaps in the information provided. There is also literature to suggest that perceived quality drops as a result of brands not investing in innovation. This lack of investment is counterintuitive, however it is as a result of brands relying more on CM knowledge and less on their own innovation efforts. Plambeck and Taylor (2005) suggest OEMs make investments in innovation before they contract for capacity. With contract manufacturing an OEM will underinvest in the innovation. This is also done as a cost saving measure (Plambeck and Taylor, 2005: 145). Negative impacts to branding may include reduced innovation or investment in innovation, lowered product quality, and increased competition from powerful CMs (Han, Porterfield, Li, 2012: 160). Motivated by examples from the electronics and automotive industries, Plambeck and Taylor (2005) surmise, that "… with contract manufacturing, the OEM will always underinvest in innovation, spending only what he expects to recoup by negotiating a favorable supply contract with the CM." Public relations mishaps, lack of construction directions, heterogeneity, and a lack of innovation all have a negative impact on a brand's perceived quality.

Discussion and Future Research

Using David Aaker's building blocks for brand equity, this research extends the effects of using contract manufacturing to a brand. First, this analysis breaks down each of Aaker's five characteristics of brand equity into fundamental elements onto which effects can be mapped. Second, the research presents various situations illustrating the effects of using a contract manufacturer. Finally the analysis applies a theoretical logic to bridge the gaps between the internal effects and the external outcomes to brand equity. Perhaps the most notable effects were the negative ones, and companies can work to avoid them when electing to us a contract manufacturer. The findings of this research can be used by brand managers when embarking on new relationships with a contract manufacturer. Understanding the benefits, limitations, and damage a CM can inflict on a brand can act to guide contract negotiations to protect the hiring organization.

Future research could include primary research through field work. Field work would allow for the direct observation of the effects to brand equity. Focusing on a specific brand and cataloging events as they occur could provide observational evidence for the findings presented here. Tracking company size would provide additional insights. This would help to answer whether the effects on the level of brand equity varied with the size of business. The Contract Manufacturing definition employed in this paper covers outsourcing and co-packing, terms which vary by industry. It is possible that the effects from CM on brand equity for an electronics brand may not be experienced the same way by a packaged food brand. Future research may seek to identify such disparities across industries. Furthermore, brand managers may have observed additional unexpected impacts on brand equity from Contract Manufacturing. Interviewing brand managers about their experience using Contract Manufacturing could confirm and extend the findings in this paper.

References

Aaker, David A. Managing Brand Equity: Capitalizing on the Value of a Brand Name. New York: Free, 1991. Print.

Aaker, David A. "The Value of Brand Equity." The Journal of Business Strategy 13.4 (1992): 27-32. Print.

Adams, Michael. "The Ultimate Guide to Co-Packing Your Food Product: How to Find, Work, and Succeed with a Co-packer for Your Food Business." Amazon Digital Services LLC. 2014. Print.

Arruñada, Benito, and Xosé H. Vázquez. "When Your Contract Manufacturer Becomes Your Competitor." Harvard Business Review 1 Sept. 2006: 135-44. Print.

Belcourt, Monica. "Outsourcing — The Benefits and the Risks." Human Resource Management Review 16.2 (2006): 269-79. Web.

Beverland, Michael B., Julie Napoli, and Francis Farrelly. "Can All Brands Innovate in the Same Way? A Typology of Brand Position and Innovation Effort*." Journal of Product Innovation Management 27.1 (2010): 33-48. Web.

Björk, Peter. "Brand Recovery: A Quick Fix Model for Brand Structure Collapse." Journal of Travel & Tourism Marketing 29.6 (2012): 520-31. Web.

Bryce, David J., and Michael Useem. "The Impact of Corporate Outsourcing on Company Value." European Management Journal 16.6 (1998): 635-43. Web.

Burrows, Peter. "Workplace Auditor Sees 'Tons of Issues' at Apple Supplier." Bloomberg, 17 Feb. 2012. Web.

Claeson, Björn. DEADLY SECRETS: WHAT COMPANIES KNOW ABOUT DANGEROUS WORKPLACES AND WHY EXPOSING THE TRUTH CAN SAVE WORKERS' LIVES IN BANGLADESH AND BEYOND. Rep. INTERNATIONAL LABOR RIGHTS FORUM, 2012. Print.

Cornell. "Developing a Brand (or Not)." The Cutting Edge Apparel Business Guide. Cornell University. Web. 01 Feb. 2016.

Davies, Russell. "Manufacturing Your Products in the USA; Hasbro Steps up with a Domestic Contract Manufacturing Service." Interview by Richard Gottlieb. Global Toy News 27 Apr. 2011. Web.

Davis, Teresa. "Hasbro, Inc. History of." History of Hasbro, Inc. Funding Universe. Web.

Han, Chaodong, Tobin Porterfield, and Xiaolin Li. "Impact of Industry Competition on Contract Manufacturing: An Empirical Study of U.S. Manufacturers." International Journal of Production Economics 138.1 (2012): 159-69. Web.

Handley, Sean, and John Gray. "Managing Quality in a Heterogeneous Contract Manufacturing Environment." Decision Sciences 46.6 (2015): 1011-048. Web.

Heric, Michael, and Bhanu Singh. "Outsourcing Can Do Much More Than Just Cut Costs." Forbes Magazine, 05 June 2010. Web.

Jaworski, Stefan Paul, and Don Fosher. "National Brand Identity & Its Effect On Corporate Brands: The National Brand Effect (NBE)." Multinational Business Review 11.2 (2003): 99-113. Web.

Jiang, Bin, James A. Belohlav, and Scott T. Young. "Outsourcing Impact on Manufacturing Firms' Value: Evidence from Japan." Journal of Operations Management 25.4 (2007): 885-900. Web.

Klein, Naomi. “No Logo.” New York: Picador USA, 2000. Print.

Lewis, Jennifer. Getting Your Specialty Food Product Onto Store Shelves: The Ultimate Wholesale How-to Guide for Artisan Food Companies, 2014. Print.

Malone, Michael S. Infinite Loop: How the World's Most Insanely Great Computer Company Went Insane. New York: Currency/Doubleday, 1999. Print.

Markel, Howard. "How the Tylenol Murders of 1982 Changed the Way We Consume Medication." PBS, 29 Sept. 2014. Web.

McCarthy, Kieren. "Another Death in Apple's 'Mordor' – Its Foxconn Chinese Assembly Plant." The Register, 07 Aug. 2015. Web.

Moore, Christopher M., John Fernie, and Steve Burt. "Brands without Boundaries – The Internationalisation of the Designer Retailer’s Brand." European Journal of Marketing 34.8 (2000): 919-37. Print.

Myslik, Liz. "5 Things to Consider When Selecting a Co-Packer.” Fresca Foods Inc., 01 June 2013. Web. 01 Feb. 2016.

Plambeck, Erica L., and Terry A. Taylor. "Sell the Plant? The Impact of Contract Manufacturing on Innovation, Capacity, and Profitability." Management Science 51.1 (2005): 133-50. Web.

Ross, Brian, Matthew Mosk, and Cindy Galli. "Workers Die at Factories Used by Tommy Hilfiger." ABC News. ABC News Network, 2012. Web.

Sauer, Abe. "In China, Apple Goes Out of the Wok, Into the Fire." Brand Channel, 20 Feb. 2012. Web.

Story, Louise, and David Barboza. "Mattel Recalls 19 Million Toys Sent From China." The New York Times, 15 Aug. 2007. Web.

Theodosiou, Marios, and Leonidas C. Leonidou. "Standardization versus Adaptation of International Marketing Strategy: An Integrative Assessment of the Empirical Research." International Business Review 12.2 (2003): 141-71. Web.

Wyshak, Susie. Good Food, Great Business: How to Take Your Artisan Food Idea from Concept to Marketplace. Print.

Zhu, Ying. "A TALE OF TWO BRANDS: THE JOINT EFFECT OF MANUFACTURER BRAND AND RETAILER BRAND ON CONSUMERS' EVALUATION OF PRODUCTS." Dissertation. Texas A&M University (2011). Web.